



Nexus REIT

**NEXUS REAL ESTATE INVESTMENT TRUST**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the three and six months ended June 30, 2019**

**August 15, 2019**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following management's discussion and analysis ("MD&A") of Nexus Real Estate Investment Trust ("the REIT") for the three and six months ended June 30, 2019 should be read in conjunction with the REIT's audited consolidated financial statements for the years ended December 31, 2018 and 2017 and the unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2019.

The information contained in this MD&A reflects events up to August 15, 2019, the date on which this MD&A was approved by the REIT's Board of Trustees. Financial data included in this MD&A is presented in Canadian dollars, which is the functional currency of the REIT, and has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Additional information about the REIT can be accessed at [www.sedar.com](http://www.sedar.com).

## **FORWARD LOOKING STATEMENTS**

Certain statements contained in this MD&A constitute forward-looking statements which reflect the REIT's current expectations and projections about future results. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "estimates", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the REIT to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A. Such forward-looking statements are based on a number of assumptions that may prove to be incorrect.

While the REIT anticipates that subsequent events and developments may cause its views to change, the REIT specifically disclaims any obligation to update these forward-looking statements except as required by applicable law. These forward-looking statements should not be relied upon as representing the REIT's views as of any date subsequent to the date of this MD&A. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The factors identified above are not intended to represent a complete list of the factors that could affect the REIT.

## **NON-IFRS FINANCIAL MEASURES**

Net operating income ("NOI") is a measure of operating performance based on income generated from the properties of the REIT. Management considers this non-IFRS measure to be an important measure of the REIT's operating performance. Funds from operations ("FFO") is a measure of operating performance based on the funds generated from the business of the REIT before reinvestment or provision for other capital needs. Management considers this non-IFRS measure to be an important measure of the REIT's operating performance. Management considers adjusted funds from operations ("AFFO"), a non-IFRS measure, to be an important performance measure of recurring economic earnings.

Normalized FFO and Normalized AFFO are considered important measures which adjust FFO and AFFO, respectively, to exclude the impact of unique or non-recurring items.

NOI, FFO, Normalized FFO, AFFO and Normalized AFFO are not measures defined by IFRS, do not have standardized meanings prescribed by IFRS and should not be construed as alternatives to net income, cash generated by (used in) operating activities or other measures of financial performance calculated in accordance with IFRS. NOI, FFO, Normalized FFO, AFFO and Normalized AFFO as computed by the REIT may differ from similar measures as reported by other trusts or companies in similar or different industries.

NOI is used by industry analysts, investors and management to measure operating performance of Canadian real estate investment trusts. NOI represents property revenues less property operating expenses as presented in the statements of income prepared in accordance with IFRS. Accordingly, NOI is equivalent to net rental income as presented in the statements of income. NOI excludes certain expenses included in the determination of net income such as general and administrative expense, fair value adjustments, income (loss) from equity accounted investment in joint venture, other income, net interest expense and distributions on Class B LP Units.

The Real Property Association of Canada issued whitepapers on FFO for IFRS and AFFO for IFRS dated February 2017 (the “Whitepapers”), as amended in February 2018 and February 2019. The REIT calculates FFO and AFFO in accordance with the Whitepapers. Comparative AFFO figures have been restated to conform with the definition of AFFO adopted in the current year.

FFO is defined as net income in accordance with IFRS, excluding gains or losses on sales of investment properties, tax on gains or losses on disposal of properties, transaction costs expensed as a result of acquisitions being accounted for as business combinations, gain from bargain purchase, fair value adjustments on investment properties, fair value adjustments on warrants and unit options, fair value adjustments on derivative financial instruments, and fair value adjustments and other effects of redeemable units classified as liabilities and the Class B LP Units, if any. FFO also includes adjustments in respect of equity accounted entities for the preceding items. Normalized FFO is defined as FFO, net of adjustments for unique or non-recurring items.

AFFO is defined as FFO subject to certain adjustments, including: differences resulting from recognizing ground lease payments and rental income on a straight-line basis, and reserves for normalized maintenance capital expenditures, tenant incentives and leasing costs. Normalized AFFO is defined as AFFO, net of adjustments for unique or non-recurring items.

The diluted weighted average number of units used to calculate diluted FFO per unit and diluted AFFO per unit reflects conversion of all dilutive potential units, represented by unit options and warrants, assuming that unit options and warrants are exercised with the assumed proceeds (comprised of exercise price and any related unrecognized compensation cost) used to purchase units at the average market price during the period.

AFFO payout ratio, and Normalized AFFO payout ratio are calculated as total distributions declared during the period (including distributions declared on Class B LP Units) divided by AFFO, and Normalized AFFO, respectively.

## **BUSINESS OVERVIEW AND STRATEGY**

Nexus Real Estate Investment Trust (the “REIT”) was established under the laws of Ontario pursuant to its declaration of trust, as amended and restated effective April 28, 2014 and November 28, 2017. The REIT is an open-ended real estate investment trust which owns and operates commercial real estate properties in Western Canada, Ontario, Quebec and Atlantic Canada.

The strategy of the REIT is to grow by acquiring commercial real estate assets in jurisdictions, potentially including the United States, where opportunities exist to purchase assets on terms such that the acquisitions are expected to be accretive, on a per unit basis, to the AFFO of the REIT. The REIT seeks to identify potential acquisitions using investment criteria that focus on the security of cash flow, potential for capital appreciation, and potential for increasing value through more efficient management of the assets being acquired.

The REIT has a strategic relationship with TriWest Capital Partners (“TriWest”), one of Canada’s leading private equity firms. Through its relationship with TriWest, the REIT has access to a pipeline of properties owned by TriWest’s current and former portfolio companies as well as the properties of many of the companies that TriWest meets with. The REIT may have the opportunity to acquire these properties through sale-and-leaseback transactions with strong tenants and long-term leases. The REIT views this non-marketed pipeline of potential acquisition properties as a key differentiator for the REIT, particularly as the REIT plans to gain considerable scale in its current phase of growth.

The REIT also has a strategic relationship with RFA Capital Partners Inc. (“RFA”), through which the REIT expects to have unique access to properties identified through RFA’s expansive network of favourable industry relationships developed through over 20 years of successfully investing in the Canadian real estate industry.

## HIGHLIGHTS

- Completed a \$31,000,000 accretive acquisition of industrial properties in the quarter at a 9.33% blended capitalization rate.
- Property revenues increased 14.3% to \$15,003,425 as compared to \$13,121,925 for Q2 2018 and 4.3% as compared to \$14,386,438 for Q1 2019.
- Net operating income increased 18.3% to \$9,745,459 as compared to \$8,235,670 for Q2 2018 and 9.0% as compared to \$8,936,821 for Q1 2019.
- Net income for the quarter of \$4,041,737, compared to \$4,498,873 for the same quarter of the prior year; net income excluding fair value adjustments, Class B LP Unit distributions and loss on disposal of investment properties for Q2 2019 was \$5,287,016 as compared to \$5,159,534 for Q2 2018.
- Normalized AFFO per unit for the quarter of \$0.050 increased 3.2% as compared to Q2 2018 normalized AFFO per unit of \$0.048; increased 1.3% as compared to Q1 2019 normalized AFFO per unit of \$0.049.
- Normalized AFFO payout ratio for the quarter of 80.5% is down from 81.5% for Q1 2019 and 83.1% for the same quarter of 2018.
- Debt to total assets ratio remains conservative at 51.7%; weighted average term to maturity of mortgages increased from 2.59 years at March 31, 2019 to 3.66 years at June 30, 2019.
- Management of the REIT will host a conference call on Friday August 16<sup>th</sup> at 1PM EST to review results and operations.

## ACQUISITIONS AND DISPOSALS

### 1) *Acquisitions*

On April 2, 2019, the REIT acquired four industrial properties located in Fort St John, British Columbia; Blackfalds, Alberta; Medicine Hat, Alberta and Estevan, Saskatchewan (the “Mastec Properties”) for a contractual purchase price of \$31,000,000. The purchase price was partially satisfied through the issuance of 7,030,186 Class B LP Units of a subsidiary limited partnership of the REIT at a deemed value of \$2.10 per unit and convertible into REIT units on a 1 to 1 basis, with the balance, net of closing adjustments, satisfied in cash.

On October 17, 2018, the REIT acquired a property located in Calgary, Alberta (the “Calgary Property”) for a contractual purchase price of \$8,500,000. The Calgary Property purchase price was partially satisfied through the issuance of 1,214,286 REIT Units at a deemed value of \$2.10 per REIT unit, with the balance, net of closing adjustments, satisfied in cash.

On August 1, 2018, the REIT acquired a property located in Beamsville, Ontario (the “Beamsville Property”) for a contractual purchase price of \$6,595,000. The purchase price was satisfied through the issuance of 1,880,524 Class B LP units of a subsidiary limited partnership of the REIT at a deemed value of \$2.10 per unit, convertible on a 1.67 to 1 basis to 3,140,475 REIT units, with closing adjustments satisfied in cash.

On June 27, 2018, the REIT acquired an industrial property located in Regina, Saskatchewan (the “Regina Property”) for a contractual purchase price of \$6,300,000. The Regina Property is 100% leased and has a gross leasable area (“GLA”) of 38,690 square feet. The purchase price was partially satisfied through the issuance of 1,047,619 REIT units at a deemed value of \$2.10 per unit with the balance, net of closing adjustments, satisfied in cash.

On June 7, 2018, the REIT acquired two industrial properties located in Nisku, Alberta (the “Nisku Properties”) for a contractual purchase price of \$12,345,000. The Nisku Properties are 100% leased and have a GLA of 61,155 square feet. The purchase price was partially satisfied through the issuance of 1,533,219 Class B LP Units of a subsidiary limited partnership of the REIT convertible on a 1.67 to 1 basis to 2,540,476 REIT units at a deemed value of \$2.10 per REIT unit, with the balance, net of closing adjustments, satisfied in cash.

On April 30, 2018, the REIT acquired a property located in Richmond, British Columbia (the "Richmond Property") for a contractual purchase price of \$57,380,000. The Richmond Property has a GLA of 174,059 square feet. The purchase price was partially satisfied through the issuance of 9,666,667 Class B LP Units of a subsidiary limited partnership of the REIT at a deemed value of \$2.10 per unit and convertible to REIT units on a 1 to 1 basis, with the balance, net of closing adjustments, satisfied in cash. The vendor is obligated to complete, at their cost, certain improvements to the property with an estimated cost of \$2,400,000. These improvements are required to prepare the property for occupancy by certain tenants who are not yet occupying the property. Until the construction is complete and tenants are all occupying and paying rent under the terms of their leases, the vendors will pay to the REIT a rent obligation equal to the rents that will be earned on the spaces that are being built out once the tenants take occupancy and are paying rent in accordance with their leases.

## **2) Disposals**

On April 30, 2018, the REIT sold a property located in Kelowna, British Columbia for a selling price of \$10,000,000. Net of selling costs of \$26,750 and related mortgage debt with a principal amount of \$4,384,106, the REIT received proceeds of \$5,589,144 on the sale. The sale of the property generated a loss on sale of \$26,750.

On April 6, 2018, the REIT sold a property located in Yellowknife, Northwest Territories for a selling price of \$1,300,000. Net of selling costs of \$21,971, the REIT received proceeds of \$1,278,029 on the sale. The sale of the property generated a loss on sale of \$21,971.

**REIT PROPERTIES AS AT JUNE 30, 2019**

<b>Property Address</b>	<b>Property Use</b>	<b>Rentable Area (Square Feet)</b>	<b>Rentable Area (Square Feet) At REIT Ownership Interest</b>	<b>Occupancy</b>	<b>Weighted Average Remaining Lease Term</b>
<b><u>Northwest Territories</u></b>					
348-352 Old Airport Rd., Yellowknife, NWT	Industrial	53,212	53,212	100%	6.4 years
<b><u>British Columbia</u></b>					
965 McMaster Way, Kamloops, BC	Industrial	13,706	13,706	100%	6.4 years
988 Great St., Prince George, BC	Multi-Tenant Service, Warehousing, Retail	53,126	53,126	100%	4.2 years
1751 & 1771 Savage Road, Richmond, BC	Industrial and Retail Mixed Use	174,059	174,059	100%	6.8 years
9929 Swanson St., Fort St. John, BC	Industrial	26,477	26,477	100%	3.8 years
<b><u>Alberta</u></b>					
4700 & 4750 - 102 Ave., SE, Calgary, AB	Industrial	29,471	29,471	100%	5.5 years
3780 & 4020 - 76 <sup>th</sup> Ave., SE, Calgary, AB	Industrial	58,937	58,937	100%	6.4 years
41 Royal Vista Drive, NW, Calgary, AB	Industrial	36,915	36,915	100%	8.1 years
8001 - 99 St., Clairmont, AB	Office and Warehouse	26,638	26,638	100%	10.0 years
12104 & 12110 - 17 <sup>th</sup> St., NE, Edmonton, AB	Industrial and Headquarters	116,582	116,582	100%	6.4 years
14801 - 97 <sup>th</sup> St., Grande Prairie, AB	Industrial	42,120	42,120	100%	6.4 years
3501 Giffen Rd. North & 3711 - 36 St. North, Lethbridge, AB	Industrial	229,000	229,000	100%	10.0 years
5406 - 59 <sup>th</sup> Ave., Lloydminster, AB	Industrial	12,425	12,425	100%	6.4 years
4301 - 45 Ave., Rycroft, AB	Industrial	22,110	22,110	100%	10.0 years
2301 - 8 St., Nisku, AB	Industrial	21,506	21,506	100%	5.3 years
2303A - 8 St., Nisku, AB	Industrial	39,649	39,649	100%	6.3 years
1010 Brier Park Dr., Medicine Hat, AB	Industrial	14,354	14,354	100%	3.8 years
27323 - 144 Township Rd. 394, Blackfalds, AB	Industrial	25,000	25,000	100%	7.3 years
<b><u>Saskatchewan</u></b>					
110 - 71 <sup>st</sup> St., Saskatoon, SK	Industrial	74,796	74,796	100%	6.4 years

<b>Property Address</b>	<b>Property Use</b>	<b>Rentable Area (Square Feet)</b>	<b>Rentable Area (Square Feet) At REIT Ownership Interest</b>	<b>Occupancy</b>	<b>Weighted Average Remaining Lease Term</b>
15 Peters Ave., Saskatoon, SK	Industrial	38,160	38,160	100%	6.4 years
850 Manitoba St. East & 15 - 9 <sup>th</sup> Ave., NE, Moose Jaw, SK	Industrial	18,800	18,800	100%	6.4 years
4271 – 5 Ave. East, Prince Albert, SK	Industrial	24,600	24,600	100%	6.5 years
1117 -1135 Pettigrew Ave., Regina, SK	Industrial	38,690	38,690	100%	2.1 years
101 Jahn St., Estevan, SK	Industrial	11,846	11,846	100%	3.8 years
<b><u>Ontario</u></b>					
455 Welham Rd., Barrie, ON	Industrial	109,366	109,366	100%	6.0 years
200 Sheldon Drive, Cambridge, ON	Industrial	150,000	150,000	100%	1.2 years
5005 South Service Road, Beamsville, ON	Retail	8,125	8,125	100%	3.8 years
<b><u>Quebec</u></b>					
935-965 rue Reverchon, Saint-Laurent, QC	Multi-tenant Industrial	114,236	114,236	91%	3.4 years
2045 rue Stanley, Montréal, QC <sup>(1) (2) (4)</sup>	Office	113,714	56,857	76% <sup>(2)(4)</sup>	15.9 years
1901 Dickson / 5780 Ontario Est, Montréal, QC	Industrial	91,068	91,068	100%	5.9 years
72 rue Laval, Gatineau, QC <sup>(1)</sup>	Office	68,473	34,237	100%	2.7 years
6810 boul. Des Grandes Prairies, Montréal, QC	Industrial	60,786	60,786	100%	3.0 years
3330 2 <sup>e</sup> rue, Saint-Hubert, QC	Multi-tenant Industrial	60,441	60,441	100%	2.4 years
3600 1 <sup>ère</sup> rue, Saint-Hubert, QC	Multi-tenant Industrial	37,554	37,554	100%	1.9 years
3550 1 <sup>ère</sup> rue, Saint-Hubert, QC	Industrial	22,428	22,428	100%	2.6 years
1185-1195 Chemin du Tremblay, Longueuil, QC	Commercial Mixed Use	53,913	53,913	80%	2.9 years
41 boulevard Saint-Jean-Baptiste, Châteauguay, QC	Retail	53,151	53,151	100%	6.3 years
10500 avenue Ryan, Dorval, QC	Office	52,372	52,372	100%	10.4 years
3490-3504 rue Griffith, Saint-Laurent, QC	Multi-tenant Industrial	40,665	40,665	100%	3.8 years
955 boulevard Michèle-Bohec, Blainville, QC	Office	33,461	33,461	100%	7.0 years

<b>Property Address</b>	<b>Property Use</b>	<b>Rentable Area (Square Feet)</b>	<b>Rentable Area (Square Feet) At REIT Ownership Interest</b>	<b>Occupancy</b>	<b>Weighted Average Remaining Lease Term</b>
1600 rue Montgolfier, Laval, QC	Office	27,097	27,097	100%	5.0 years
10330-10340 Ch. Côte-de-Liesse, Lachine, QC	Office	26,281	26,281	57%	2.1 years
2301 rue Versailles, Mascouche, QC	Commercial Mixed Use	18,435	18,435	78%	3.3 years
1094-1100 boulevard Des Chutes, Beauport, QC <sup>(1)</sup>	Retail	32,211	16,106	94%	5.4 years
1700 rue Sherbrooke, Magog, QC <sup>(1)</sup>	Retail	133,406	66,703	74%	4.1 years
1971 rue Bilodeau, Plessisville, QC <sup>(1)</sup>	Retail	99,611	49,806	91%	5.4 years
4000 boulevard Du Jardin, Québec City, QC <sup>(1)</sup>	Retail	44,619	22,310	100%	3.9 years
6700 rue St-Georges, Lévis, QC <sup>(1)</sup>	Retail	43,203	21,602	90%	2.9 years
10516 boulevard Sainte-Anne, Ste-Anne-de-Beaupré, QC <sup>(1)</sup>	Retail	88,625	44,313	86%	4.7 years
9550 boulevard L'Ormière, Québec, QC <sup>(1)</sup>	Retail	114,396	57,198	96%	2.7 years
333 Côte Joyeuse, St-Raymond, QC <sup>(1)</sup>	Retail	64,468	32,234	83%	1.8 years
161 Route 230 Ouest, La Pocatière, QC <sup>(1)</sup>	Retail	208,800	104,400	77%	3.5 years
25 Route 138, Forestville, QC <sup>(1)</sup>	Retail	55,962	27,981	88%	3.4 years
2000 boulevard Louis-Fréchette, Nicolet, QC <sup>(1)</sup>	Retail	88,383	44,192	93%	6.7 years
3856 boulevard Taschereau, Greenfield Park, QC <sup>(1)</sup>	Retail	213,982	106,991	97%	4.6 years
250 boulevard Fiset, Sorel, QC <sup>(1)</sup>	Retail	116,348	58,174	100%	6.2 years
8245 boulevard Taschereau, Brossard, QC <sup>(1)</sup>	Retail	43,329	21,665	76%	5.9 years
340 rue Belvédère Sud, Sherbrooke, QC <sup>(1)</sup>	Retail	170,953	85,477	94%	4.9 years
401-571 boulevard Jutras Est, Victoriaville, QC	Retail	377,396	377,396	89%	6.6 years
7500 boulevard Les Galeries d'Anjou, Anjou, QC <sup>(1)</sup>	Retail	105,398	52,699	94%	4.1 years
353 St-Nicolas, Montréal, QC <sup>(1)</sup>	Office	35,480	17,740	82%	2.0 years
410 St-Nicolas, Montréal, QC <sup>(1)</sup>	Office	154,515	77,258	98%	1.5 years

<b>Property Address</b>	<b>Property Use</b>	<b>Rentable Area (Square Feet)</b>	<b>Rentable Area (Square Feet) At REIT Ownership Interest</b>	<b>Occupancy</b>	<b>Weighted Average Remaining Lease Term</b>
360 Notre-Dame Ouest, Montréal, QC <sup>(1)</sup>	Office	29,758	14,879	90%	2.7 years
321 de la Commune, Montréal, QC <sup>(1)</sup>	Office	11,502	5,751	100%	2.6 years
329 de la Commune, Montréal, QC <sup>(1)</sup>	Office	21,022	10,511	100%	3.1 years
127, 137 & 145 St-Pierre, Montréal, QC <sup>(1)</sup>	Office	36,620	18,310	92%	3.3 years
63 rue des Brésosles, Montréal, QC <sup>(1)</sup>	Office	39,020	19,510	100%	4.2 years
425 rue Guy, Montréal, QC <sup>(1)</sup>	Multi-tenant Industrial	37,196	18,598	96%	2.4 years
<b><u>New Brunswick</u></b>					
400 Main Street, St. John, NB	Office	159,927	159,927	85%	1.6 years
<b><u>Prince Edward Island</u></b>					
695 University Ave., Charlottetown, PEI	Retail	4,500	4,500	100%	2.0 years
<b>Total</b>		<b>4,874,375</b>	<b>3,788,883</b>	<b>94% <sup>(3)</sup></b>	<b>5.3 years <sup>(3)</sup></b>

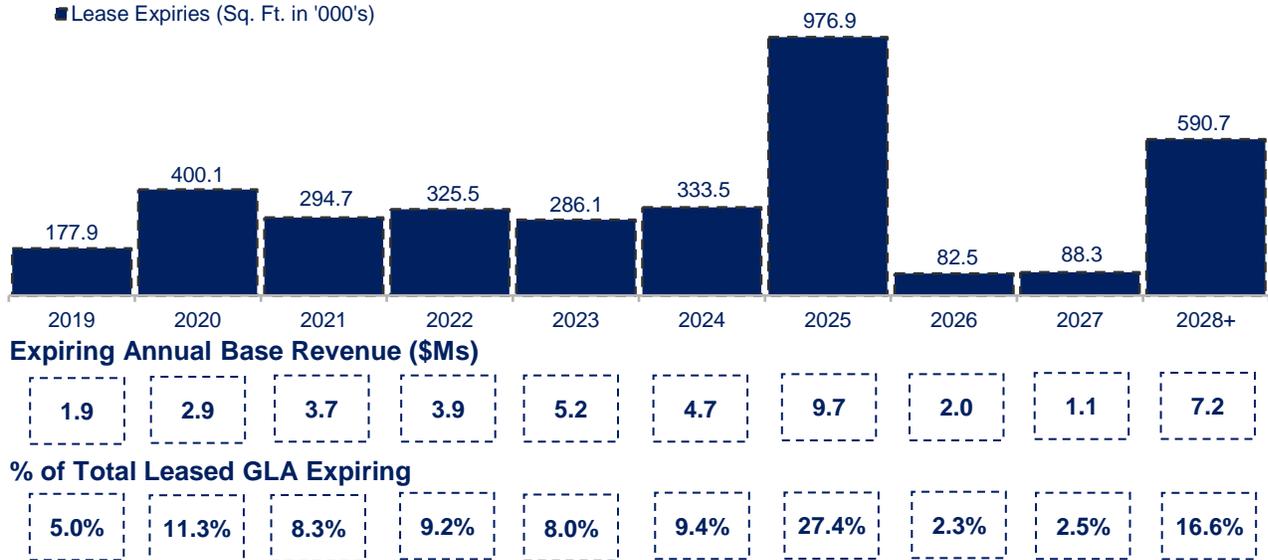
(1) Nexus owns a 50% interest in these properties.

(2) Property is under redevelopment.

(3) Excluding 2045 rue Stanley, which is under redevelopment, the occupancy rate is 95% and the weighted average remaining lease term is 5.2 years.

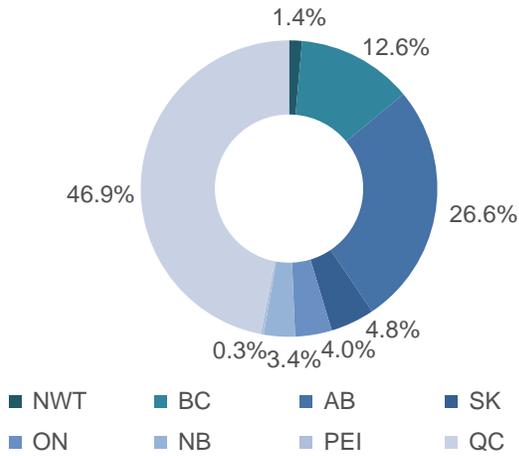
(4) 2045 rue Stanley has a total committed occupancy of 83% as at June 30, 2019.

## LEASE EXPIRIES

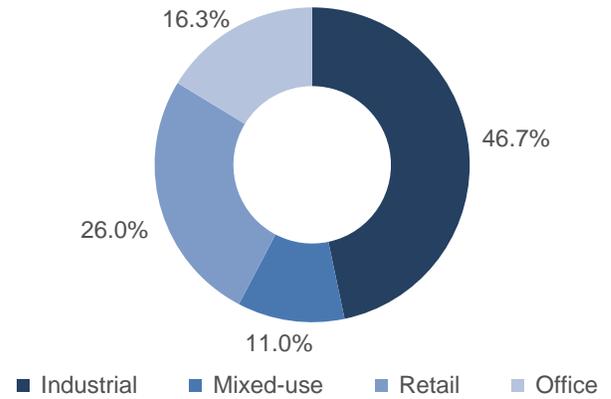


## PROPERTY COMPOSITION DIVERSITY

### GEOGRAPHIC MIX (BY BASE RENT)



### ASSET CLASS MIX (BY BASE RENT)



## SUMMARY OF RESULTS

	Three months ended		Six months ended	
	June 30, 2019 \$	June 30, 2018 \$	June 30, 2019 \$	June 30, 2018 \$
<b>Financial highlights</b>				
Funds from operations (FFO) <sup>(1)</sup>	5,433,978	5,095,446	13,521,065	10,064,581
Normalized FFO <sup>(1) (2)</sup>	6,639,371	5,548,550	12,832,903	10,517,685
Adjusted funds from operations (AFFO) <sup>(1)</sup>	4,740,759	4,462,270	12,151,163	8,843,519
Normalized AFFO <sup>(1) (2)</sup>	5,946,152	4,915,374	11,463,001	9,296,623
Distributions declared <sup>(3)</sup>	4,789,115	4,212,990	9,290,370	7,986,095
Distributions declared on units issued April 30, 2018 on the closing of an acquisition <sup>(4)</sup>	-	128,857	-	128,857
Normalized distributions declared <sup>(3) (4)</sup>	4,789,115	4,084,133	9,290,370	7,857,238
Weighted average units outstanding – basic <sup>(5)</sup>	119,729,985	101,829,119	116,150,950	98,070,079
Weighted average units outstanding – diluted <sup>(5)</sup>	119,798,205	101,888,051	116,190,308	98,134,567
Distributions per unit, basic and diluted <sup>(3) (5)</sup>	0.040	0.041	0.080	0.081
Adjusted distributions per unit, basic and diluted <sup>(3) (4) (5)</sup>	0.040	0.040	0.080	0.080
FFO per unit, basic and diluted <sup>(1) (5)</sup>	0.045	0.050	0.116	0.103
Normalized FFO per unit, basic and diluted <sup>(1) (2) (5)</sup>	0.055	0.054	0.110	0.107
AFFO per unit, basic and diluted <sup>(1) (5)</sup>	0.040	0.044	0.105	0.090
Normalized AFFO per unit, basic and diluted <sup>(1) (2) (5)</sup>	0.050	0.048	0.099	0.095
AFFO payout ratio, basic <sup>(1) (3) (5)</sup>	101.0%	94.4%	76.5%	90.3%
Normalized AFFO payout ratio, basic <sup>(1) (2) (3)</sup>	80.5%	85.7%	81.0%	85.9%
Normalized AFFO payout ratio, basic, calculated with normalized distributions declared <sup>(1) (2) (3) (4) (6)</sup>	80.5%	83.1%	81.0%	84.5%
Debt to total assets ratio	51.7%	54.3%	51.7%	54.3%

(1) See Non-IFRS Measures.

(2) Normalized FFO and Normalized AFFO include adjustments for a vendor rent obligation amount related to the Richmond Property, which is received in cash from the vendor of the Richmond Property until the property build out is complete and all tenants are occupying and paying rent. The vendor rent obligation amount is not included in NOI for IFRS accounting purposes. Normalized FFO and Normalized AFFO also include adjustments for debt repayment fees included in interest expense in the three and six month periods ended June 30, 2019 of \$578,399 which were due on repayment of debt assumed in acquisitions completed in July 2017.

(3) Includes distributions payable to holders of Class B LP Units which are accounted for as interest expense in the consolidated financial statements.

(4) 9,666,667 REIT units were issued on April 30, 2018 on the closing of an acquisition. These units were eligible to receive distributions for the month of April. Normalized distributions declared and Normalized AFFO payout ratio, basic, calculated with normalized distributions declared each exclude distributions declared on these units for the month of April 2018.

(5) Weighted average number of units includes the Class B LP Units.

(6) Calculated based on normalized distributions declared as presented in the table above.

(7) 2018 comparative period FFO, AFFO, Normalized FFO and Normalized AFFO have been restated to include an adjustment for amortization of tenant incentives and leasing costs, not adjusted in 2018.

	Three months ended		Six months ended	
	June 30, 2019 \$	June 30, 2018 \$	June 30, 2019 \$	June 30, 2018 \$
<b>Financial results</b>				
Property revenues	15,003,425	13,121,925	29,389,863	26,425,486
Property expenses	<u>(5,257,966)</u>	<u>(4,886,255)</u>	<u>(10,707,583)</u>	<u>(10,259,889)</u>
Net operating income	9,745,459	8,235,670	18,682,280	16,165,597
General and administrative expense	(882,191)	(724,397)	(1,593,088)	(1,476,376)
Fair value adjustment of investment properties	(65,562)	(97,991)	(259,744)	1,395,509
Fair value adjustment of Class B LP Units	585,156	159,997	(1,703,763)	269,386
Fair value adjustment of warrants	2,584	5,208	1,622	10,845
Fair value adjustment of unit options	53,000	(40,000)	(80,000)	(86,000)
Fair value adjustment of derivative financial instruments	(1,069,729)	-	(1,069,729)	-
Income (loss) from equity accounted investment in joint venture	(111,230)	67,954	(285,227)	132,756
Loss on disposal of investment properties	-	(48,721)	-	(48,721)
Other income	-	-	2,523,625	-
	<u>8,257,487</u>	<u>7,557,720</u>	<u>16,215,976</u>	<u>16,362,996</u>
Net interest expense	(3,465,022)	(2,419,693)	(6,140,340)	(4,581,293)
Distributions on Class B LP Units	<u>(750,728)</u>	<u>(639,154)</u>	<u>(1,432,922)</u>	<u>(857,876)</u>
Net income	<u>4,041,737</u>	<u>4,498,873</u>	<u>8,642,714</u>	<u>10,923,827</u>

For the three months ended June 30, 2019, net operating income of \$9,745,459 was \$1,509,789 higher than NOI in the same period of 2018 of \$8,235,670. Properties acquired in 2018 and in Q2 2019 contributed approximately \$1,726,000 of NOI in the quarter, compared to \$242,000 in Q2 2018. CPI increases generated incremental NOI of approximately \$45,000 in the Q2 2019 as compared to Q2 2018.

For the six months ended June 30, 2019, net operating income of \$18,682,280 was \$2,516,683 higher than NOI in the same period of 2018 of \$16,165,597. Properties acquired in 2018 and in Q2 2019 contributed approximately \$2,664,000 of NOI in the period, compared to \$242,000 in the same period of 2018. CPI increases generated incremental NOI of approximately \$90,000 in the period as compared in the same period of 2018.

For the three months ended June 30, 2019, general and administrative expense of \$882,191 was \$157,794 higher than general and administrative expense of \$724,397 in Q2 2018 due to higher salaries and professional fees. Approximately \$50,000 of recruiting costs were expensed in Q2 2019. Annual financial statement filing fees were also incurred and expensed in Q2 2019, whereas they were incurred and expensed in the first quarter of the prior year. For the six months ended June 30, 2019, general and administrative expense of \$1,593,088 was \$116,712 higher than general and administrative expense of \$1,476,376 in the same period of the prior year also primarily due to higher salaries and professional fees.

Fair value adjustments of Class B LP Units are driven by changes in the trading price of the REIT units, multiplied by the number of Class B LP Units outstanding at a quarter end, as well as fair value adjustments to the date that Class B LP Units are exchanged for REIT units. As at June 30, 2019, 18,235,859 Class B LP Units were outstanding, which are exchangeable for REIT units on a 1 to 1 basis. The trading price of the REIT units as at June 30, 2019 was \$1.98 as compared to \$2.01 as at March 31, 2019 and \$1.89 per unit as at December 31, 2018.

Fair value adjustments of unit options are impacted primarily by changes in the trading price of the REIT units relative to the strike price of the unit options and by the number of unit options outstanding, as well as by changes in interest rates and the expected remaining life of unit options. The trading price of the REIT's units varied from \$1.89 at December 31, 2018 (December 31, 2017 - \$2.02) to \$2.01 at March 31, 2019 (March 31, 2018 - \$2.00) and \$1.98 at June 30, 2019 (June 30, 2018 - \$1.98), accounting for the majority of the change in fair value.

Loss from equity accounted investment in joint venture for the three months ended June 30, 2019 of \$111,230 relates to a joint venture which owns 2045 rue Stanley, a downtown Montreal office building with 113,714 square feet of GLA, in which the REIT has a 50% joint venture interest. Of this loss, \$109,923 relates to a fair value adjustment to mark to market a swap in place at the joint venture to swap floating rate bankers' acceptance rates to a fixed rate, interest expense of \$61,071 and general and administrative expense of \$18,942, partially offset by NOI of \$78,707. NOI was approximately \$60,000 lower than Q2 2018 due to repairs and maintenance costs incurred in respect of building mechanical systems in Q2 2019. For the six months ended June 30, 2019, the loss from equity accounted investment in joint venture in the period relates to a loss on fair value adjustment of \$316,347 to mark to market the swap, interest expense of \$110,261, and general and administrative expense of \$49,075, partially offset by NOI of \$190,456.

During the six months ended June 30, 2019, the estimated vendor rent obligation related to the Richmond Property was reassessed in the context of anticipated delays in the completion of property improvements required before the commencement of certain leases. The total amount of additional vendor rent obligation expected to be collected from the Richmond Property vendor was estimated to be \$2,523,625, which was recorded in other income in the first quarter of 2019.

Net interest expense for the three months ended June 30, 2019 of \$3,465,022 was \$1,045,329 higher than net interest expense of \$2,419,693 for Q2 2018 due to the impact of acquisitions in 2018 and in 2019, which accounted for \$678,757 of interest expense in Q2 2019 as compared to \$253,757 in Q2 2018. Included in Q2 2019 interest expense is a debt repayment fee in the amount of \$578,339 which was due in April 2019 on maturity and repayment of debt assumed in acquisitions completed in July 2017.

For the six months ended June 30, 2019, the net interest expense of \$6,140,340 was \$1,559,047 higher than net interest expense of \$4,581,293 for the same period of the prior year due to the impact of acquisitions in 2018 and in 2019, which accounted for \$1,209,769 of interest expense in the six months ended June 30, 2019 as compared to \$253,757 for the same period of the prior year, and the \$578,339 debt repayment fee.

For the three months ended June 30, 2019, distributions on Class B LP Units of \$750,728 were \$111,574 higher than distributions on Class B LP Units of \$639,154 for the same period of the prior year due to a greater number of Class B LP Units outstanding in the period, which were issued in connection with the acquisitions of the Mastec Properties in 2019 and Richmond, Nisku and Beamsville Properties in 2018. For the six months ended June 30, 2019, distributions on Class B LP Units were \$575,046 higher than the same period of 2018 for the same reason.

	As at June 30, 2019 \$	As at December 31, 2018 \$
<b>Select balance sheet data</b>		
Investment properties	564,409,742	530,191,912
Cash	5,188,716	3,354,169
<b>Total Assets</b>	<b>587,188,446</b>	<b>548,380,739</b>
Current portion of mortgages payable	42,470,161	66,654,908
Credit Facility	61,349,709	58,715,338
<b>Total Current Liabilities</b>	<b>113,038,944</b>	<b>134,395,661</b>
Non-current portion of mortgages payable	196,177,803	158,343,585
Lease liabilities	3,826,993	-
Derivative financial instruments	1,069,729	-
Class B LP units	36,107,003	37,320,065
Warrants	2,603	4,225
Unit Options	355,000	275,000
<b>Total Non-current Liabilities</b>	<b>237,539,131</b>	<b>195,942,875</b>
<b>Total Unitholders' Equity</b>	<b>236,610,371</b>	<b>218,042,203</b>
Debt to total assets ratio	51.7%	51.7%

#### Debt to total assets

The REIT's debt to total assets as at June 30, 2019 remained stable at 51.7% as compared to December 31, 2018. The REIT's calculation of debt includes mortgages payable, Credit Facility and lease liabilities balances at the amounts carried on the REIT's condensed consolidated interim statements of financial position.

#### SUMMARY OF QUARTERLY RESULTS <sup>(1)</sup>

	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Property revenues	\$ 15,003,425	\$ 14,386,438	\$ 14,221,166	\$ 13,450,841
Property expenses	<u>\$ (5,257,966)</u>	<u>\$ (5,449,617)</u>	<u>\$ (5,216,276)</u>	<u>\$ (4,855,799)</u>
Net operating income (NOI)	\$ 9,745,459	\$ 8,936,821	\$ 9,004,890	\$ 8,595,042
Net income	\$ 4,041,737	\$ 4,600,977	\$ 23,753,407	\$ 4,157,032
Weighted average number of units, basic	119,729,985	112,532,148	112,169,870	109,956,419
Weighted average number of units, diluted	119,798,205	112,557,675	112,216,160	110,015,122
	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Property revenues	\$ 13,121,925	\$ 13,303,561	\$ 13,135,686	\$ 12,966,361
Property expenses	<u>\$ (4,886,255)</u>	<u>\$ (5,373,634)</u>	<u>\$ (4,974,420)</u>	<u>\$ (4,570,287)</u>
Net operating income (NOI)	\$ 8,235,670	\$ 7,929,927	\$ 8,161,266	\$ 8,426,074
Net income	\$ 4,498,873	\$ 6,424,954	\$ 12,302,915	\$ 3,359,029
Weighted average number of units, basic	101,829,119	94,331,914	94,213,235	94,049,376
Weighted average number of units, diluted	101,888,051	94,400,403	94,277,656	94,124,232

(1) The quarterly results fluctuate based on timing related to pursuing and completing acquisitions and corporate activities, other income and fair value adjustments of investment properties, Class B LP Units, warrants, unit options and derivative financial instruments.

## FUNDS FROM OPERATIONS AND ADJUSTED FUNDS FROM OPERATIONS

	Three months ended		Six months ended	
	June 30, 2019 \$	June 30, 2018 \$	June 30, 2019 \$	June 30, 2018 \$
<b>FFO</b>				
Net income	4,041,737	4,498,873	8,642,714	10,923,827
Adjustments:				
Loss on disposals	-	48,721	-	48,721
Fair value adjustment of investment properties	65,562	97,991	259,744	(1,395,509)
Fair value adjustment of Class B LP Units	(585,156)	(159,997)	1,703,763	(269,386)
Fair value adjustment of warrants	(2,584)	(5,208)	(1,622)	(10,845)
Fair value adjustment of unit options	(98,125)	(5,125)	(10,250)	(4,250)
Fair value adjustment of derivative financial instruments	1,069,729	-	1,069,729	-
Adjustments for equity accounted joint venture <sup>(1)</sup>	109,923	(35,907)	316,347	(106,679)
Distributions on Class B LP Units expensed	750,728	639,154	1,432,922	857,876
Amortization of tenant incentives and leasing costs <sup>(2)</sup>	72,732	16,944	107,812	20,826
Lease principal payments	(13,842)	-	(46,641)	-
Amortization of right-of-use assets	23,274	-	46,547	-
Funds from operations (FFO)	<u>5,433,978</u>	<u>5,095,446</u>	<u>13,521,065</u>	<u>10,064,581</u>
Add: Vendor rent obligation <sup>(3)</sup>	626,994	453,104	(1,266,561)	453,104
Add: Repayment fees <sup>(4)</sup>	578,399	-	578,399	-
Normalized FFO	<u>6,639,371</u>	<u>5,548,550</u>	<u>12,832,903</u>	<u>10,517,685</u>
<b>AFFO</b>				
FFO	5,433,978	5,095,446	13,521,065	10,064,581
Adjustments:				
Straight-line adjustments ground lease and rent	(139,538)	(113,176)	(273,221)	(201,062)
Capital reserve <sup>(5)</sup>	(553,681)	(520,000)	(1,096,681)	(1,020,000)
Adjusted funds from operations (AFFO)	<u>4,740,759</u>	<u>4,462,270</u>	<u>12,151,163</u>	<u>8,843,519</u>
Add: Vendor rent obligation <sup>(3)</sup>	626,994	453,104	(1,266,561)	453,104
Add: Repayment fees <sup>(4)</sup>	578,399	-	578,399	-
Normalized AFFO	<u>5,946,152</u>	<u>4,915,374</u>	<u>11,463,001</u>	<u>9,296,623</u>

(1) Adjustment for equity accounted joint venture relates to a fair value adjustment of a swap in place at the joint venture to swap floating rate bankers' acceptance rates to a fixed rate, and fair value adjustment of the joint venture property under redevelopment.

(2) 2018 comparative period FFO has been restated to include an adjustment for amortization of tenant incentives and leasing costs, not adjusted in 2018.

(3) Normalized FFO and Normalized AFFO include adjustments for a vendor rent obligation amounts related to the Richmond Property which is settled in cash from the vendor of the Richmond Property until the property build out is complete and tenants are occupying and paying rent. The vendor rent obligation amount is not included in NOI for accounting. Normalized FFO and Normalized AFFO exclude amounts included in other income in the statement of income and comprehensive income.

(4) Normalized FFO and Normalized AFFO include adjustments for debt repayment fees included in interest expense in the three and six month periods ended June 30, 2019 of \$578,399 which were due on repayment of debt assumed in acquisitions completed in July 2017.

(5) Capital reserve includes maintenance capital expenditures, tenant incentives and leasing costs. Reserve amounts are established with reference to building condition reports, appraisals, and internal estimates of tenant renewal, tenant incentives and leasing costs. The REIT believes that a reserve is more appropriate given the fluctuating nature of these expenditures.

## AFFO Capital Reserve

	Three months ended		Six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	\$	\$	\$	\$
Capital reserve <sup>(5)</sup>	553,681	520,000	1,096,681	1,020,000
Average square feet of GLA	3,787,049	3,557,269	3,769,603	3,525,903
Annualized capital reserve per square foot of GLA	\$0.58	\$0.58	\$0.58	\$0.58

	Three months ended		Six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	\$	\$	\$	\$
Actual tenant incentives and leasing costs	282,619	216,400	579,725	507,309
Actual maintenance capital expenditures	106,690	823,433	300,872	963,056
Total	<u>389,309</u>	<u>1,039,833</u>	<u>880,597</u>	<u>1,470,365</u>
Average square feet of GLA	3,787,049	3,557,269	3,769,603	3,525,903
Annualized capital spent per square foot of GLA unadjusted for capital reserve	\$0.41	\$1.17	\$0.47	\$0.83

Actual capital spending and tenant incentive and leasing costs for the six months ended June 30, 2019 of \$880,597 is lower than the amount of the capital reserve included in AFFO of \$1,096,681 by \$216,084. Of the total actual spending for the quarter ended June 30, 2019 of \$389,309, \$320,240 related to a portfolio of properties acquired in 2017. Capital spending on this portfolio is anticipated to be higher in the first 2 to 3 years post-acquisition, and to then normalize.

The following is a reconciliation of the REIT's AFFO to cash flows from operating activities:

	Three months ended		Six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	\$	\$	\$	\$
Cash flows generated by operating activities	5,282,477	5,571,290	10,718,073	8,507,464
Adjustments:				
Changes in non-cash working capital	(668,980)	(1,345,814)	1,096,587	335,971
Changes in other non-current assets	(11,456)	(8,586)	(38,268)	(26,510)
Changes in restricted cash	24,968	24,968	49,935	49,935
Distributions on Class B LP Units expensed	750,728	639,154	1,432,922	857,876
Loss on disposals	-	48,721	-	48,721
Adjustments for equity accounted joint venture	109,923	(35,907)	316,347	(106,679)
Share of net income (loss) from 50% investment in joint venture	(111,230)	67,954	(285,227)	132,756
Straight-line rent adjustments of equity accounted joint venture	(21,596)	(29,605)	(40,155)	(59,131)
Non-cash trustee fees settled in units	-	(42,809)	-	(85,619)
Attribution of grant date fair value of unit options	(45,125)	(45,125)	(90,250)	(90,250)
Amortization of deferred financing fees	(101,686)	(142,387)	(234,027)	(269,765)
Amortization of mortgage fair value adjustments	100,259	280,416	368,548	568,750
Lease principal repayments	(13,842)	-	(46,641)	-
Capital reserve	(553,681)	(520,000)	(1,096,681)	(1,020,000)
AFFO	<u>4,740,759</u>	<u>4,462,270</u>	<u>12,151,163</u>	<u>8,843,519</u>

## FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The REIT's principal source of liquidity is cash on hand and the undrawn borrowing capacity on its Credit Facility. As at June 30, 2019, the REIT had cash of \$5,188,716 (December 31, 2018 - \$3,354,169) and working capital deficit of \$98,265,192 (December 31, 2018 - \$122,666,451). Included in current liabilities as at June 30, 2019 is the current portion of mortgages payable totalling \$42,470,161 and a Credit Facility balance of \$61,349,709. The REIT expects that it will also be able to refinance the mortgages and the Credit Facility on their maturity. Management of the REIT believes that sufficient cash from operations will be generated to settle the REIT's liabilities as they come due, and the REIT has the ability to draw funds on the Credit Facility if required. The REIT has sufficient liquidity to maintain and expand its business.

Changes in cash for the periods noted are detailed in the following table:

	Three months ended		Six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	\$	\$	\$	\$
<b>Cash generated by (used in)</b>				
Operating activities	5,282,477	5,571,290	10,718,073	8,507,464
Investing activities	(17,147,205)	(43,795,377)	(18,138,493)	(44,229,791)
Financing activities	12,809,194	40,724,601	9,254,967	37,025,696
Change in cash	944,466	2,500,514	1,834,547	1,303,369
Cash – beginning of period	4,244,250	3,056,626	3,354,169	4,253,771
Cash – end of period	5,188,716	5,557,140	5,188,716	5,557,140

Cash generated by operating activities for the three months ended June 30, 2019 of \$5,282,477 is comprised of net income of \$4,041,737, cash from changes in non-cash working capital, other non-current assets and restricted cash of \$655,468, and non-cash items of \$585,272. Prepaid expenses increased by \$1,571,158 due to property tax payments made in the quarter, deposits in the amount of \$500,000 were released on completion of the acquisition of the Mastec Properties and other current assets decreased by \$998,102 primarily related to the vendor rent obligation collected from the Richmond Property vendor of \$626,994 during the quarter. An increase in accounts payable and accrued liabilities generated cash of \$916,057 primarily related to higher deferred revenue and prepaid rents of \$519,801.

Cash generated by operating activities for the six months ended June 30, 2019 of \$10,718,073 is comprised of net income of \$8,642,714, cash from changes in non-cash working capital, other non-current assets and restricted cash of \$1,108,254, and non-cash items of \$3,183,613. Prepaid expenses increased by \$2,035,287 due to property tax payments made in the period, and other current assets decreased by \$774,605 primarily related to the release of a \$2,000,000 capital spending escrow that was previously held by lawyers and partially offset by the vendor rent obligation collected from the Richmond Property vendor of \$1,266,561.

Cash used in investing activities for the three months ended June 30, 2019 of \$17,147,205 is primarily related to the acquisition of the Mastec Properties in April 2019 for \$16,757,896. The remainder of cash used in investing activities relates to tenant incentives, leasing costs and capital spending in the amount of \$389,309.

Cash used in investing activities for the six months ended June 30, 2019 of \$18,138,493 is primarily related to the acquisition of the Mastec Properties in April 2019 for \$16,757,896. The remainder of cash used in investing activities relates to tenant incentives, leasing costs and capital spending in the amount of \$880,597 and a \$500,000 cash contribution to the joint venture that owns an office building located at 2045 Rue Stanley in Montreal. The building is undergoing renovation and is lease up.

Cash generated from financing activities for the three months ended June 30, 2019 of \$12,809,194 is primarily related to a new financing of \$17,400,000 to purchase the Mastec Properties, partially offset by cash distributions to unitholders of \$3,653,589, and mortgage principal repayments in accordance with scheduled amortization of \$1,488,213. During the quarter, net borrowings on the credit facility totaled \$825,250.

Cash generated from financing activities for the six months ended June 30, 2019 of \$9,254,967 is primarily related to a new financing of \$17,400,000 to purchase the Mastec Properties, partially offset by cash distributions to unitholders of \$7,116,755 and mortgage principal repayments in accordance with scheduled amortization of \$3,262,096. During the period, the net borrowings on the credit facility totaled \$2,254,871.

The REIT believes that it has sufficient financial resources and generates sufficient cash from operations to operate its investment properties and to identify, investigate and complete potential acquisitions, and to fund further expenditures as required.

### Mortgages Payable

As at June 30, 2019, the mortgages payable are secured by charges against 55 of the REIT's investment properties. The weighted average interest rate, including deferred financing costs and interest rate swap agreements, of the mortgages payable is 3.91% and the weighted average term to maturity is 3.66 years (2018 - 2.76 years). The breakdown of future principal repayments, including mortgage maturity, is presented in the following table:

	<b>Scheduled Repayments</b>	<b>Principal Maturities</b>	<b>Total</b>
	\$	\$	\$
Remainder of 2019	3,773,458	23,779,196	27,552,654
2020	6,480,813	38,137,829	44,618,642
2021	5,612,097	16,989,177	22,601,274
2022	5,177,085	15,972,007	21,149,092
2023	3,852,885	48,955,120	52,808,005
Thereafter	4,584,607	65,137,190	69,721,797
Total	<u>29,480,945</u>	<u>208,970,519</u>	<u>238,451,464</u>

### Credit Facility

The REIT has a revolving credit facility of \$57,500,000, and a \$7,500,000 term facility (together the Credit Facility). The Credit Facility was originally maturing on July 15, 2019 but has been extended to September 15, 2019. The Credit Facility is secured against 13 of the REIT's investment properties and allows the REIT to draw against the facility in the form of prime advances, bankers' acceptance advances, or fixed rate and term advances. Prime rate advances bear interest at 125 basis points per annum over the Canadian prime borrowing rate. Bankers' acceptance advances bear interest at 225 basis points per annum over the floating bankers' acceptance rate.

The REIT has a \$500,000 revolving line of credit bearing interest at 100 basis points per annum over the Canadian prime borrowing rate. The line of credit is secured against 6 of the REIT's investment properties and allows the REIT to draw down a yearly average maximum of 75% of the \$500,000 credit limit. As at June 30, 2019, \$74,459 was drawn against this line of credit (December 31, 2018 - undrawn).

Funds drawn against the Credit Facility and the revolving line of credit are as follows:

	<b>June 30, 2019</b>	<b>December 31, 2018</b>
	\$	\$
Fixed rate and term borrowing	50,350,000	50,350,000
Bankers' acceptance borrowings	10,500,000	6,000,000
Prime rate borrowings	499,709	2,458,838
Total drawn against the Credit Facility	<u>61,349,709</u>	<u>58,808,838</u>
Less: deferred financing	-	(93,500)
	<u>61,349,709</u>	<u>58,715,338</u>

Amounts drawn on the Credit Facility at June 30, 2019 are as follows:

	Principal Amount \$	Interest Rate	Repricing Date
Fixed rate and term borrowing	30,000,000	3.90%	September 15, 2019
Fixed rate and term borrowing	20,350,000	3.63%	September 15, 2019
Bankers' acceptance borrowings	10,500,000	4.21%	July 17, 2019
Prime rate borrowings	499,709	5.01%	Variable
	<u>61,349,709</u>		

The Credit Facility includes, inter alia, covenants that RW LP, the subsidiary of the REIT which is party to the Credit Facility: (i) will not allow the Total Funded Debt to Real Property Ratio to exceed 60% at any time; and (ii) the Interest Coverage Ratio shall not be less than 2.25:1.00. As at June 30, 2019, RW LP was in compliance with both of these covenants. The Credit Facility also contains restrictions on, inter alia, change of business, sale of assets, and mergers and acquisitions without the consent of the lender and includes events of default such as failure to pay the principal loan, failure to observe covenants and involuntary insolvency.

Total Funded Debt to Real Property Ratio is a defined term contained in the Credit Facility. Total Funded Debt to Real Property Ratio is calculated as the total amount drawn against the Credit Facility divided by the fair market value of the investment properties of RW LP.

Interest Coverage Ratio is a defined term contained in the Credit Facility. Interest Coverage Ratio is calculated by the dividing the interest expense of RW LP by the result of the following as contained in the RW LP Statement of Income: net income plus interest expense, plus loss on fair value adjustment of investment properties, less gain on fair value adjustment of investment properties, plus depreciation and amortization.

Total Funded Debt to Real Property Ratio and Interest Coverage Ratio are not measures defined by IFRS, do not have standardized meanings prescribed by IFRS and should not be construed as alternatives to net income, financial position, cash flow from operating activities or other measures of financial performance calculated in accordance with IFRS. These covenant calculations are not used by the REIT as a measure of the REIT's future or historical financial performance, financial position or cash flow, but are used solely to determine RW Real Estate LP's compliance with its covenants set out in the Credit Facility Agreement.

## **SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES**

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and the reported amount of expenses during the period. Actual results may differ materially from these estimates.

The estimates and judgments used in determining the recorded amount for asset, liabilities and equity in the financial statements include the following:

### *Business combinations*

Accounting for business combinations under IFRS 3, "Business Combinations" (IFRS 3), applies when it is determined that a business has been acquired. Under IFRS 3, a business is defined as an integrated set of activities and assets conducted and managed for the purpose of providing a return to investors or lowering costs or providing other economic benefits directly and proportionately to the REIT. A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues. In the absence of such criteria, a group of assets is deemed to have been acquired. If goodwill is present in a transferred set of activities and assets, the transferred set is presumed to be a business. The REIT applies judgment in determining whether property acquisitions qualify as a business combination in accordance with IFRS 3 or as an asset acquisition.

When determining whether the acquisition of an investment property or a portfolio of investment properties is a business combination or an asset acquisition, the REIT applies judgment when considering the following:

- whether the investment property or properties are capable of producing outputs;
- whether the market participant could produce outputs if missing elements exist;
- whether employees were assumed in the acquisition; and
- whether an operating platform has been acquired.

When the REIT acquires properties or a portfolio of properties and does not take on or assume employees or does not acquire an operating platform, it classifies the acquisition as an asset acquisition.

#### *Investment Properties*

The assumptions and estimates used when determining the fair value of investment properties are stabilized income and capitalization rates. Management determines fair value internally utilizing financial information, external market data and capitalization rates determined by reference to third party appraisals and reports published by industry experts including commercial real estate brokerages. The REIT also applies judgment in determining whether the properties it acquires are considered to be asset acquisitions or business combinations. As at June 30, 2019, a 0.25% increase in the weighted average capitalization rate would result in a decrease of approximately \$20,070,000 in the determination of the fair value of the investment properties. A 0.25% decrease in the weighted average capitalization rate would result in an increase of approximately \$21,591,000 in the determination of the fair value of the investment properties.

#### *Unit options and warrants*

The estimates used when determining the fair value of unit-based compensation and warrants are the average expected unit option or warrant holding period, the average expected volatility rate and the average risk-free interest rate. For vested options, the average expected unit option holding period used is estimated to be half of the life of the option. For unvested options, the average expected unit option holding period is estimated to be the period until the options vest plus half of the period from vesting to expiry. The average expected volatility rate is estimated based on the historical volatility of comparable companies over a period of time approximating the average expected unit option holding period. The average risk-free interest rate is based on Government of Canada bonds with terms consistent with the average expected unit option or warrant holding period.

#### *Derivative financial instruments*

From time to time, the REIT enters into interest rate swap agreements in order to reduce the impact of fluctuating interest rates of certain new mortgages. These interest rate swaps usually require periodic exchanges of payments without the exchange of the notional principal amount on which the payments are based and they expire coterminous with the maturities of the corresponding mortgages. The interest rate swaps are not designated as hedging instruments under IFRS. The interest rate swaps are measured at fair value on initial recognition and are subsequently measured and classified at fair value through profit and loss with changes in fair value presented in the consolidated statement of income and comprehensive income.

### **Changes in accounting policies**

The REIT's accounting policies are described in note 2 of the audited consolidated financial statements for the year ended December 31, 2018 and note 2 of the unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2019. The REIT implemented the following accounting policies in 2019:

On January 1, 2019, the REIT adopted IFRS 16, "Leases" replacing IAS 17 "Leases" using the modified retrospective approach and, therefore, comparative information has not been restated and continues to be reported under the previously applicable standards as disclosed in the 2018 annual consolidated financial statements.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, applying a discount rate of 6%. The adoption of IFRS 16 resulted in the recognition of lease liabilities amounting to \$3,873,634, and right-of-use assets amounting to \$3,599,109 relating to office and land leases. The nature and timing of the related expenses will change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

On January 1, 2019, the REIT adopted IFRIC 23, Uncertainty Over Income Tax Treatments (“IFRIC 23”), using the retrospective approach. IFRIC 23 clarifies how the recognition and measurement requirements of IAS 12, Income taxes, are applied where there is uncertainty over income tax treatments. The adoption of IFRIC 23 had no impact to the REIT’s condensed consolidated interim financial statements.

In applying these policies, in certain cases it is necessary to use estimates, which management determines using information available to the REIT at the time. Management reviews key estimates on a quarterly basis to determine their appropriateness and any change to these estimates is applied prospectively in compliance with IFRS. Significant estimates are made with respect to the fair values of investment properties and the fair values of financial instruments.

### **Standards issued but not yet effective**

There are pending changes to IFRS which are not yet effective for the current period and have not been applied in the preparation of the REIT’s condensed consolidated interim financial statements:

#### **IFRS 3, Business Combinations**

In October 2018, the IASB issued amendments to IFRS 3, Business Combinations (“IFRS 3”). The amendments clarified the definition of a business and provide guidance on whether an acquired set of activities and assets is a group of assets rather than a business. An acquirer only recognizes goodwill when acquiring a business, and not when acquiring a group of assets. The amendments apply to transactions for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2020. Earlier adoption is permitted. These amendments will have no impact on the REIT’s condensed consolidated interim financial statements.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the REIT.

## **FINANCIAL INSTRUMENTS AND RISKS AND UNCERTAINTIES**

### *Real property ownership and tenant risk*

All real property investments are subject to elements of risk. The value of real property and any improvements thereto depends on the credit and financial stability of tenants and upon the vacancy rates of the property. The properties generate revenue through rental payments made by the tenants thereof. The ability to rent vacant property will be affected by many factors, including changes in general economic conditions (such as the availability and cost of mortgage funds), local conditions (such as an oversupply of space or a reduction in demand for real estate in the area), government regulations, changing demographics, competition from other available properties, and various other factors.

Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant will be replaced. The terms of any subsequent lease may be less favourable to the REIT than those of an existing lease. In the event of default by a tenant, the REIT may experience delays or limitations in enforcing its rights as landlord and incur substantial costs in protecting its investment. Furthermore, at any time, a tenant may seek the protection of bankruptcy, insolvency or similar laws which could result in the rejection and termination of the lease of the tenant and, thereby, cause a reduction in the cash flows available to the REIT.

## *Outlook*

The REIT has geographic and asset diversification of its portfolio and continues to have access to a robust pipeline of potential off-market deals across Canada, and will continue to evaluate and execute on opportunities which provide attractive metrics. Unit deals may be a source of growth for the REIT in the near term.

## *Competition*

The real estate business is competitive. Numerous developers, managers and owners of properties compete with the REIT when seeking tenants. Some of the competing properties may be better located than the REIT's properties. The existence of competition could have an impact on the REIT's ability to lease its properties and could have an impact on the rents that can be charged. The REIT is subject to competition for suitable real property investments and a number of these competitors have greater financial resources than those of the REIT. There is a risk that continuing increased competition for real property acquisitions may increase purchase prices to levels that are not accretive.

## *Fixed costs and increased expenses*

The REIT incurs a number of fixed costs which must be paid throughout its ownership of real property, regardless of whether its properties are producing income. Fixed costs include utilities, property taxes, maintenance costs, mortgage payments, insurance costs, and related costs.

## *General uninsured risks*

The REIT carries comprehensive general liability, fire, flood, extended coverage and rental loss insurance with customary policy specifications, limits and deductibles. There can be no assurance, however, that claims in excess of the insurance coverage or claims not covered by the insurance coverage will not arise or that the liability coverage will continue to be available on acceptable terms.

## *Environmental and litigation risk*

The REIT is subject to federal, provincial and local environmental regulations that apply generally to the ownership of real property and the operation of commercial properties. If it fails to comply with those laws, the REIT could be subject to significant fines or other governmental sanctions. Under various federal, provincial and local laws, ordinances and regulations, an owner or operator of real estate may be required to investigate and clean up hazardous or toxic substances or petroleum product releases at a facility and may be held liable to a governmental entity or to third parties for property damage and for investigation and clean-up costs incurred by such parties in connection with contamination. Such liability may be imposed whether or not the owner or operator knew of, or was responsible for, the presence of these hazardous or toxic substances. The cost of investigation, remediation or removal of such substances may be substantial, and the presence of such substances, or the failure to properly remediate such substances, may adversely affect the REIT's ability to sell or rent such facility or to borrow using such facility as collateral. In order to assess the potential for liabilities arising from the environmental condition at the REIT's properties, the REIT may obtain or examine environmental assessments prepared by environmental consulting firms. The environmental assessments received in respect of the investment properties have not revealed, nor is the REIT aware of, any environmental liability that the company believes will have a material adverse effect on it.

In addition, in connection with the ownership, operation and management of real properties, the REIT could potentially be liable for property damage or injuries to persons and property. In the normal course of the REIT's operations, it may become involved in, named as a party to or the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions relating to personal injuries, property damage, property taxes, land rights, the environment and contract disputes.

## *Liquidity risk*

Liquidity risk is the risk that the REIT will not have the financial resources required to meet its financial obligations as they come due. The REIT manages this risk by ensuring it has sufficient cash on hand or borrowing capacity to meet obligations as they come due by forecasting cash flows from operations, cash required for investing activities and cash from financing activities. As at June 30, 2019, the REIT had cash of \$5,188,716 (December 31, 2018 - \$3,354,169), mortgages payable of \$238,451,464 (December 31, 2018 - \$224,313,560), a Credit Facility balance of \$61,349,709 (December 31, 2018 - \$58,808,838) and accounts payable, accruals and other liabilities of \$7,864,925 (December 31, 2018 - \$7,789,734). The REIT had a

working capital deficit of \$98,265,192 as at June 30, 2019 (December 31, 2018 - \$122,666,451). The current portion of mortgages payable accounts for \$42,470,161 of the working capital deficit, and the Credit Facility accounts for \$61,349,709. The REIT expects that it will also be able to refinance the mortgages and the Credit Facility on their maturities. The REIT has access to undrawn funds under the Credit Facility and expects to generate sufficient cash from operations to satisfy its financial liabilities as they come due.

The contractual maturities and repayment obligations of the REIT's financial liabilities are as follows:

	<b>Accounts payable and accrued liabilities</b>	<b>Lease liabilities</b>	<b>Credit facility principal repayment</b>	<b>Interest on fixed portion of credit facility</b>	<b>Mortgage payable</b>	<b>Mortgage interest</b>	<b>Total</b>
	\$	\$	\$	\$	\$	\$	\$
Remainder of 2019	7,864,925	142,403	61,349,709	392,200	27,552,654	4,240,929	101,542,820
2020	-	286,273	-	-	44,618,642	7,253,197	52,158,112
2021	-	287,739	-	-	22,601,274	6,303,756	29,192,769
2022	-	287,739	-	-	21,149,092	5,259,814	26,696,645
2023	-	297,039	-	-	52,808,005	3,750,257	56,855,301
Thereafter	-	6,443,986	-	-	69,721,797	4,533,801	80,699,584
<b>Total</b>	<b>7,864,925</b>	<b>7,745,179</b>	<b>61,349,709</b>	<b>392,200</b>	<b>238,451,464</b>	<b>31,341,754</b>	<b>347,145,231</b>

#### *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. There is a risk that the REIT may not be able to renegotiate its mortgages and Credit Facility at maturity on terms as favourable as the existing Credit Facility and mortgages payable. As at June 30, 2019, there was a total of \$10,999,709 (December 31, 2018 - \$8,458,838) drawn against the Credit Facility, which bears interest at floating bankers' acceptance or Canadian prime rates plus a fixed spread. There is a risk that prevailing interest rates could increase, and those increases could be significant. The REIT mitigates interest rate risk by maintaining reasonable levels of debt to investment property value and aims to structure new debt to stagger the maturities to ensure that the majority of debt does not come due for repayment in any one particular year. The REIT may also convert borrowings under the Credit Facility from floating rate to fixed rate borrowings as part of its interest rate risk management strategy.

In April 2019, the REIT entered into certain new mortgages and simultaneously entered into interest rate swap agreements to swap floating rate interest for fixed rate interest over the terms of these mortgages. The interest rate swap agreements expire coterminous with the maturity of the corresponding mortgages.

The following table presents relevant information on interest rate swap agreements:

<b>Transaction date</b>	<b>Effective fixed interest rate</b>	<b>Maturity date</b>	<b>Original principal amount</b>	<b>Outstanding amount</b>	<b>Unrealized loss on change in the fair value</b>
			\$	\$	\$
April 2019	3.67 %	April 24, 2024	12,000,000	11,950,977	190,010
April 2019	3.74 %	April 24, 2026	12,500,000	12,449,441	330,352
April 2019	3.87 %	April 24, 2029	12,500,000	12,450,374	549,367
			<b>37,000,000</b>	<b>36,850,792</b>	<b>1,069,729</b>

#### *Credit risk*

Credit risk is the risk that one party to a financial instrument will cause a loss to another party by failing to pay for its obligations. The REIT is subject to credit risk with respect to its cash and tenant and other receivables. The REIT mitigates credit risk by monitoring the credit ratings of the institutions holding the REIT's deposits.

As at June 30, 2019, one tenant accounted for approximately 13% of the REIT's base rental income, resulting in a concentration of credit risk. The REIT monitors the creditworthiness of its tenants on an ongoing basis.

## COMMITMENTS

The REIT has a leasehold interest in a property subject to a 66-year land lease, which commenced on May 1, 2006, and has two ten-year options to renew. The land lease provides for annual base rent and additional rent comprising the property's proportionate share of common area maintenance and property tax expense. The full annual ground lease payment is due in advance in May of each year. The REIT has a leasehold interest in a property subject to a 25-year land lease, which commenced on May 25, 2012, and has two five-year options to renew. The land lease provides for annual base rent. The REIT has the option to purchase the land subject to the land lease, and this option may first be exercised on May 25, 2022.

The REIT has the rights and obligations of a 20-year term offer to lease 7,170 square feet of office space in a property owned at 50% by the REIT through investments in a joint venture. The lease commenced on January 1, 2018. The REIT has the rights and obligations of a 5-year term offer to lease 1,760 square feet of office space. The lease commenced on November 1, 2018.

## OUTSTANDING UNIT DATA

	Units	Amount \$
Unitholders' equity as at December 31, 2018	92,699,252	178,267,365
Class B LP Units exchanged for REIT units	8,540,392	17,117,801
Units issued under distribution reinvestment plan	324,080	622,224
Units issued as consideration for trustee services	22,844	42,869
Unitholders' equity as at June 30, 2019	<u>101,586,568</u>	<u>196,050,259</u>

As at August 15, 2019, a total of 101,670,644 REIT units and 18,235,859 Class B LP Units were issued and outstanding.

## DISTRIBUTIONS

The REIT currently pays a monthly distribution of \$0.01333 per unit, representing \$0.16 per unit on an annualized basis. Total distributions declared with respect to REIT units in the three and six months ended June 30, 2019 amounted to \$4,038,387 (2018 - \$3,573,837) and \$7,857,440 (2018 - 7,128,219), respectively.

In accordance with National Policy 41-201, "Income Trusts and Other Offerings", the REIT is required to provide the following information:

	Three months ended June 30, 2019 \$	Six months ended June 30, 2019 \$	Year ended December 31, 2018 \$	Year ended December 31, 2017 \$
Cash generated from operating activities	5,282,477	10,718,073	19,528,428	11,619,908
Net income	4,041,737	8,642,714	38,834,266	15,688,792
Actual cash distributions paid or payable during the period	4,038,387	7,857,440	14,412,308	11,087,432
Excess of cash flows from operating activities over cash distributions paid	1,244,090	2,860,633	5,116,120	532,476
Excess of net income over cash distributions paid	3,350	785,274	24,421,958	4,601,360

Actual cash distributions paid or payable includes all distributions declared payable to holders of REIT units and excludes distributions declared payable to holders of Class B LP Units during the period. Actual cash distributions paid or payable is unadjusted for distributions settled through the issuance of REIT units under the distribution reinvestment program. Of distributions declared in the three and six months ended June 30, 2019, \$360,848 and \$622,224, respectively, was settled through the issuance of REIT units under the distribution reinvestment program.

Net income for the three months ended June 30, 2019 of \$4,041,737 was \$3,350 higher than actual cash distributions paid or payable for the three months ended June 30, 2019 of \$4,038,387. Net income excluding non-cash fair value adjustments of investment properties, Class B LP units, unit options, warrants and derivative financial instruments totalling \$494,551 and a repayment fee of \$578,399 was \$5,114,687 for the three months ended June 30, 2019, which exceeded actual cash distributions paid or payable by \$1,076,300.

Net income for the six months ended June 30, 2019 of \$8,642,714 was \$785,274 higher than actual cash distributions paid or payable for the six months ended June 30, 2019 of \$7,857,440. Net income excluding non-cash fair value adjustments of investment properties, Class B LP units, unit options, warrants and derivative financial instruments totalling \$3,111,614 and repayment fees of \$578,399 was \$12,332,727 for the six months ended June 30, 2019, which exceeded actual cash distributions paid or payable by \$4,475,287.

For the three months ended June 30, 2019, cash generated from operating activities exceeded actual cash distributions paid or payable by \$1,244,090. Excluding changes in non-cash working capital, other non-current assets and restricted cash of \$655,468, cash generated from operating activities exceeded actual cash distributions paid or payable by \$588,622.

For the six months ended June 30, 2019, cash generated from operating activities exceeded actual cash distributions paid or payable by \$2,860,633. Excluding changes in non-cash working capital, other non-current assets and restricted cash of \$1,108,254, cash generated from operating activities exceeded actual cash distributions paid or payable by \$3,968,887.

## **DISTRIBUTION REINVESTMENT PLAN**

The REIT adopted a distribution reinvestment plan (DRIP) on February 20, 2014, pursuant to which resident Canadian holders of not less than 1,000 units are entitled to elect to have all or some of the cash distributions of the REIT automatically reinvested in additional units at a price per unit calculated by reference to the weighted average of the trading price for the units for the five trading days immediately preceding the relevant distribution date. Eligible unitholders who so elect will receive a bonus distribution of units equal to 4% of each distribution that was reinvested by them under the DRIP. During the three-month period ended June 30, 2019, 185,544 units (2018 - 112,767 units) were issued under the DRIP for a stated value of \$360,848 (2018 - \$216,888) and for the six-month period then ended, 324,080 units (2018 - 215,207 units) were issued under the DRIP for a stated value of \$622,224 (2018 - \$414,963).

## **RELATED PARTY TRANSACTIONS**

For the three-month period ended June 30, 2019, trustee retainer fees in the amount of \$53,125 were expensed (2018 - \$53,125), and no units were issued to trustees as payment of retainer fees (2018 - 21,657 units at an average price per unit of \$1.98). For the six-month period then ended, trustee retainer fees in the amount of \$106,250 were expensed (2018 - \$106,250), and 22,844 units (2018 - 36,096 units) at an average price per unit of \$1.88 (2018 - \$1.99) were issued to trustees as payment of retainer fees. Trustee retainer fees are settled in cash commencing with retainer fees earned in respect of 2019. Trustee retainer fees in the amount of \$53,125 were accrued as at June 30, 2019 (December 31, 2018 - \$55,538).

Trustee meeting fees in the amount of \$11,500 were expensed for the three-month period ended June 30, 2019 (2018 - \$5,500) and for the six-month period then ended, trustee meeting fees in the amount of \$28,700 were expensed (2018 - \$24,500). Trustee meeting fees in the amount of \$11,500 were accrued as at June 30, 2019 (December 31, 2018 - \$6,500).

For the three-month period ended June 30, 2019, key management earned salaries and other short-term employee benefits in the amount of \$159,250 (2018 - \$127,094) and \$318,500 was earned in respect of the six-month period ended June 30, 2019 (2018 - \$324,649)

The REIT received lease payments from companies controlled by funds associated with TriWest, a related party to a trustee of the REIT, totalling \$900,793 for the three-month period ended June 30, 2019 (2018 - \$886,683) and \$1,801,587 for the six-month period then ended (2018 - \$1,773,366).

As at June 30, 2019, the joint venture that owns 2045 Rue Stanley owed the REIT \$438,750 (2018 - nil).